

COTTONWOOD HEIGHTS (A CITY), UTAH
INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007



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**COTTONWOOD HEIGHTS, UTAH
YEAR ENDED JUNE 30, 2007**

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LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

December 13, 2007

Honorable Mayor
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

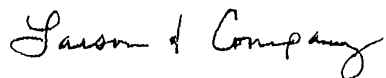
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights (the City), as of and for the period ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights, as of June 30, 2007, and the respective changes in financial position, where applicable, and the budgetary comparison for the general fund thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 13 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Supplementary information that is not a required part of the basic financials statements is found on pages 44 through 46. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Larson & Company".

Larson & Company
Certified Public Accountants

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

As management of Cottonwood Heights (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. It is also intended to assist the reader in focusing on significant financial issues. These include identifying changes in the City's financial position (its ability to address the next and subsequent year's challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets of Cottonwood Heights are \$49,160,137.
- Total net assets consist of: \$41,891,706 in capital assets net of related debt, Reserved Accounts - \$253,555 in Class "C" Road Funds and \$7,014,876 in Unreserved Accounts (\$1,235,853 in the General Fund and 5,779,023 in the Capital Projects Fund).
- The General Fund (the primary operating fund) had an increase over the prior year in its fund balance of \$717,386. The Capital Projects Fund also had an increase in its fund balance of \$1,723,960.
- In fiscal year 2006, the City negotiated a very favorable extension on \$2.5 million in intergovernmental payables for law enforcement services utilized in the first eight months of the City's existence. These payables are scheduled to be paid in full by July 1, 2008. The current outstanding balance is \$2,385,864. The City's cash balances already have adequate reserves set aside to meet the full obligation when it becomes due.
- The Proprietary Fund (Employee Benefit Fund) is an internal service fund to allow the Governmental Funds to be charged for employee paid time off (PTO) in the year the benefit is earned. Charges made by the internal service fund to the Governmental Funds will accumulate funds to pay the employee PTO when it becomes payable in future years at termination. This will prevent potential payout of PTO from being an unforeseen drain on future year budgets.
- Cottonwood Heights was instrumental in assisting 156 households, representing over 250 residents to relocate after the Meadows mobile home park was sold for redevelopment. The City coordinated the efforts of volunteers and advocacy agencies in addition to raising over \$1,200,000 in financial resources for the benefit of those being relocated.
- Cottonwood Heights participated in the funding of a feasibility study to create a new school district with other cities on the east side of the Jordan School District. The purpose of creating a new school district was to more directly address the needs of citizens living within those participating cities. The public vote in November, 2007 resulted in the creation of this new school district which will serve the cities of Cottonwood Heights, Sandy, Draper, Midvale, Town of Alta and unincorporated islands within the new boundaries.
- Impact fee studies were completed for both storm water and transportation impacts attributable to new development. This is a requirement to facilitate fee collections.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

- A business licensing fee study was performed, resulting in an equitable fee assessment schedule being updated to reflect the findings of the study.
- The City acquired two properties adjoining a closed elementary school which the City hopes to ultimately acquire for City purposes, including the possibility of a future City hall at approximately 2400 East Bengal Boulevard in addition to preserving the existing open space associated with that school property..
- During the 2007 fiscal year the City staff expanded in order to improve and sustain customer service goals. A Public Works inspector was hired to inspect roads and infrastructure improvements. A part-time public relations position was hired to help communicate with the public on city issues. A new part-time position in the treasury department was created to help in accounting functions.
- The City has continued to promote successful community events enjoyed by residence of the City, including Butlerville Days and the City Birthday party.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Cottonwood Heights' basic financial statements which consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) required supplementary information.

Government-wide financial statements (defined)

The government-wide financial statements are designed to provide readers with a broad overview of Cottonwood Heights' finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Cottonwood Heights' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Cottonwood Heights is improving or deteriorating. However, the reader will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Cottonwood Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions (business-type activities) that are intended to recover all or a significant portion of their costs through user fees and charges. ***Cottonwood Heights currently has no Business-type Activities.***

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Fund financial statements (defined)

A statement of revenue, expenditures and changes in fund balance by fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Cottonwood Heights also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of a city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Cottonwood Heights currently has two major governmental funds (as determined by generally accepted accounting principles), the General Fund and the Capital Projects Fund and one proprietary fund, Employee Benefit Fund (an internal service fund). ***Cottonwood Heights currently has no Fiduciary Funds.***

- ***Governmental funds*** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using a modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.
- ***Proprietary funds*** – Cottonwood Heights maintains one proprietary fund, the Employee Benefit Fund (an internal service fund). This fund is used as an internal service fund, which is an accounting device used to accumulate and allocate costs primarily for accrued paid time off (PTO) among the City's various functions. This fund will provide the resources needed to pay out accrued PTO benefits without negatively impacting current year budgets. Because this service predominantly benefits governmental rather than business-type functions, this fund has been included within the governmental activities in the government-wide financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-42 of this report.

CITY'S GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cottonwood Heights, assets exceed liabilities by \$49,160,137 at the close

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

of the most recent fiscal year. The City's government-wide financial statements can be found on pages 16-17 of this report.

Cottonwood Heights was incorporated on January 14, 2005 and has now completed a 2nd full fiscal year of activity as of June 30, 2007. The previous year is the only 12 month period with which to compare the current financial position and results of activities.

By far the largest portion of Cottonwood Heights' net assets, \$41,891,706 reflects investment in capital assets (e.g., land, roads and infrastructure assets, net of related debt). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Currently, the City has no general obligation debt and only a very minor amount of capital leasing debt. The long-term outstanding liability is attributable to the intergovernmental "long-term" account payable that will be paid in full on July 1, 2008 from current cash resources.

An additional portion of the City's net assets, \$253,555, represents resources that are subject to external restrictions on how they may be used. Currently this restriction is only on unexpended Class C road funds. The remaining balance of unrestricted net assets, \$7,014,876, may be used to meet the city's ongoing obligations to citizens and creditors by fund type. More than 80 percent of this is reflected in the fund balance of the Capital Projects Fund.

**Cottonwood Heights'
Net Assets
As of June 30th**

	Governmental Activities		
	2007	2006	2005 (5 1/2 months)
Current and other assets	11,592,480	7,925,989	3,137,814
Capital assets	41,901,754	42,381,068	44,346,513
Total assets	53,494,234	50,307,057	47,484,327
Long-term liabilities outstanding	2,280,164	2,410,976	31,500
Other liabilities	2,053,933	708,547	2,362,166
Total liabilities	4,334,097	3,119,523	2,393,666
Net assets			
Invested in capital assets, net of related debt	41,891,706	42,360,450	44,315,013
Restricted	253,555	183,275	171,627
Unrestricted	7,014,876	4,643,809	604,021
Total net assets	49,160,137	47,187,534	45,090,661

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Governmental activities analysis

Governmental activities increased the City's net assets by \$1,972,603 resulting in total net assets of \$49,160,137. Significant current year revenues were from:

- \$6,935,453 Property Tax revenues (44.6%),
- \$5,812,178 Other Taxes (including local option Sales tax, Franchise tax, Liquor tax) (37.4%),
- \$1,362,266 Operational Grants (Class C road funds, E911 Emergency telephone tax, and Homeland Security) (8.8%)
- \$933,977 Charges for Service (Licenses, Permits and Court fines) (6.0%).

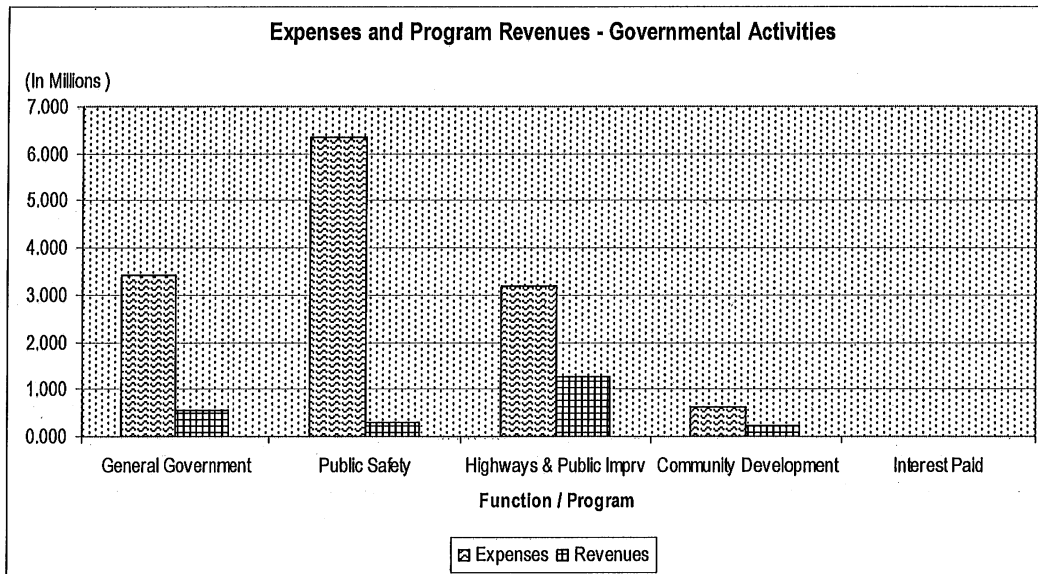
See also supplementary Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures on pages 45-46.

**Cottonwood Heights'
Changes in Net Assets**

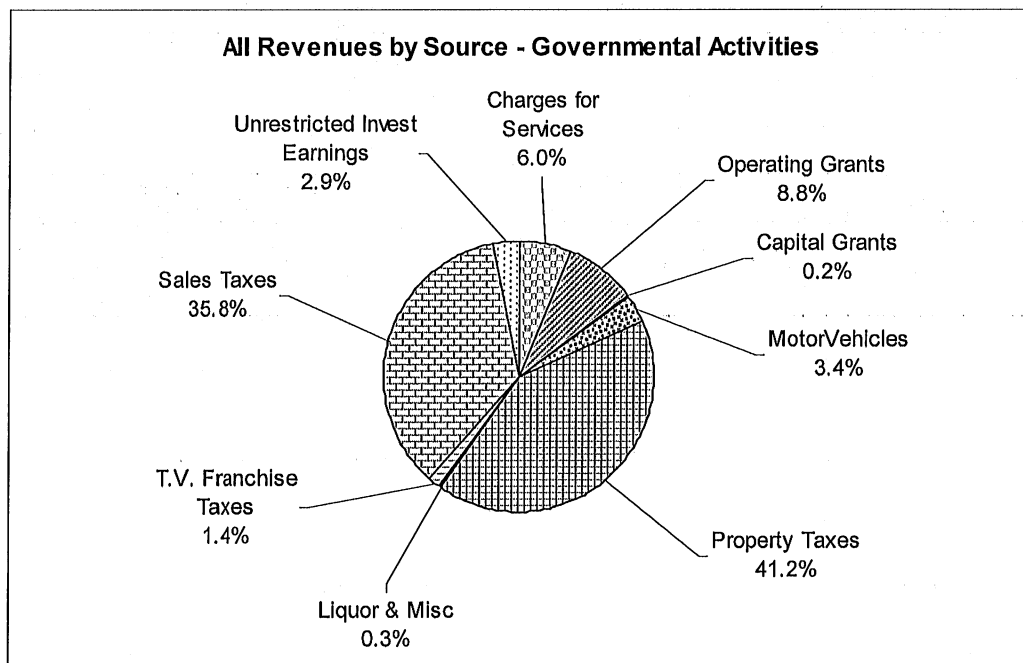
	Governmental Activities		
	FY 2007	FY 2006	FY 2005 (5 1/2 months)
Revenues:			
Program revenues:			
Charges for services	933,977	962,497	273,390
Operating grants and contributions	1,362,266	1,289,841	627,685
Capital grants and contributions	33,579	2,532,080	4,661
Total program revenues	2,329,822	4,784,418	905,736
General revenues:			
Property taxes	6,935,453	2,858,039	874,799
Other taxes	5,812,178	4,958,764	2,087,086
Unrestricted investment earnings	456,134	233,637	8,131
Other - Intergovernmental	6,248	500,000	45,243,555
Other - Miscellaneous	7,503	405	694
Total general revenues	13,217,517	8,550,846	48,214,265
Total revenues	15,547,339	13,335,264	49,120,001
Expenses:			
General government	3,421,036	1,328,701	669,212
Public safety	6,339,016	5,730,383	1,763,029
Highways and public improvements	3,197,851	3,309,743	1,377,478
Community&EconomicDevelopment	616,335	821,760	212,593
Interest on long-term debt	498	47,805	7,028
Total expenses	13,574,736	11,238,391	4,029,340
Change in net assets	1,972,603	2,096,873	45,090,661
Net assets - beginning	47,187,534	45,090,661	-
Net assets - ending	49,160,137	47,187,534	45,090,661

COTTONWOOD HEIGHTS MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

The following is a graphic presentation of the City's program revenues and corresponding expenditures. It should be noted that 66.9 percent of the expenses shown for Highways & Public Improvements is attributable to current period depreciation of the City's infrastructure assets. The revenue for the Highway & Public Improvements is primarily from Class C Road Funds. The General Government revenue is from charges for services (business licensing and permits & inspections). Public Safety revenues include E-911 Emergency telephone tax and a \$17,000 homeland security grant, as well as normal court fines.



Below is a graphic of all revenue sources collected by the City during the fiscal 2007 year.



**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

CITY'S FUND FINANCIAL STATEMENTS ANALYSIS

As noted earlier, Cottonwood Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Analysis

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of this fiscal year, Cottonwood Heights' governmental funds reported combined ending fund balances of \$7,268,431 after twenty nine and one half months of operations. Approximately 96.5 percent, or \$7,014,876, of this total constitutes *unreserved, undesignated fund balance*, which is available for spending at the City Council's discretion. (\$5,779,023 of this balance is in the Capital Projects fund and must be spent on capital projects.) The remaining \$253,555 of fund balance is *reserved or designated* to indicate that it is only available for spending on the designated purpose for which the funds are committed (Class C roads).

- The **General Fund** is the chief operating fund of the City. At June 30, 2007 the General Fund's unreserved fund balance was \$1,235,853, while the total fund balance equaled \$1,489,407. A useful measure of liquidity is to compare the unreserved fund balance and the total fund balance to expenditures (including operating transfers out) for the year. Unreserved fund balance was 8.4 percent of total expenditures and transfers, while total fund balance equaled 10.2 percent. The fund balance increased by \$717,386 due to better than expected revenues and slightly under spent departmental budgets. The current unreserved fund balance is 7.9 percent (up from 4.2 percent) of the total estimated fund revenues for the 2007-2008 fiscal year. The stated goal of the City Council is to keep a minimum fund balance of at least 6.0 percent required. Currently, this 6 percent required minimum has been calculated at \$936,166.
- The other governmental fund is the **Capital Projects Fund**. This fund is specifically used to budget capital improvements. At June 30, 2007, the fund has an unreserved available fund balance of \$5,779,023. This was an increase of \$1,723,960 from the prior year-end which is primarily due to the transfer from the General Fund and a reduction in the originally budgeted expenditures. See supplementary Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund on page 44.

The City's basic governmental funds financial statements can be found on pages 18-22 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Proprietary Funds Analysis

The focus of the City's only proprietary fund, **Employee Benefit Fund (an internal service fund)**, is to accumulate funds to pay the City's PTO liability each year to minimize or altogether eliminate any budgetary impact in a subsequent year when a payout is required. At the end of each fiscal year, a liability estimate is made based on individual accruals and current wage rate of each employee. The total liability is then compared with the current liability balance in the Employee Benefit Fund (an internal service fund) and any additional liability is charged to the current year's expenditures in the governmental funds.

The City's basic proprietary fund financial statements can be found on pages 23-25 of this report.

GENERAL FUND 2007 BUDGETARY HIGHLIGHTS

During the year there was an overall increase of \$958,417 in budgeted appropriations for expenditures between the original adopted and final amended budget, primarily due to an increase in forecasted revenues during the year. Additionally revenues were realized beyond even the revised budget in Sales Taxes totaling \$138,600, Transient Room Tax totaling \$13,800, Motor Vehicle Fee-In-Lieu totaling \$35,800, Building Permits totaling \$25,500, Class C Road funds totaling \$33,600 and Fines & Forfeitures totaling \$18,600. This re-forecasting of revenues and adjustment of budgeted expenditures also increased the appropriated transfer from the General Fund to the Capital Projects Fund by \$753,489.

Differences between the original and final amended budgets amounted to a total increase in appropriations of \$904,374. By department, the changes are:

- \$ 17,110 decrease in General Government
- \$161,896 increase in Public Safety
- \$151,358 decrease in Highways and Public Improvements
- \$157,457 increase in Community and Economic Development
- \$ 0 no change in Debt Service
- \$753,489 increase in transfers to Capital Projects Fund

No increase was funded from fund balance, rather all adjustments were made in light of revenue revisions. Actual expenditures during this fiscal year in the General Fund departments were equal to or less than the amended budget appropriations in all departments, including General Government, Public Safety, Highways and Public Improvements and Community and Economic Development and Debt Service.

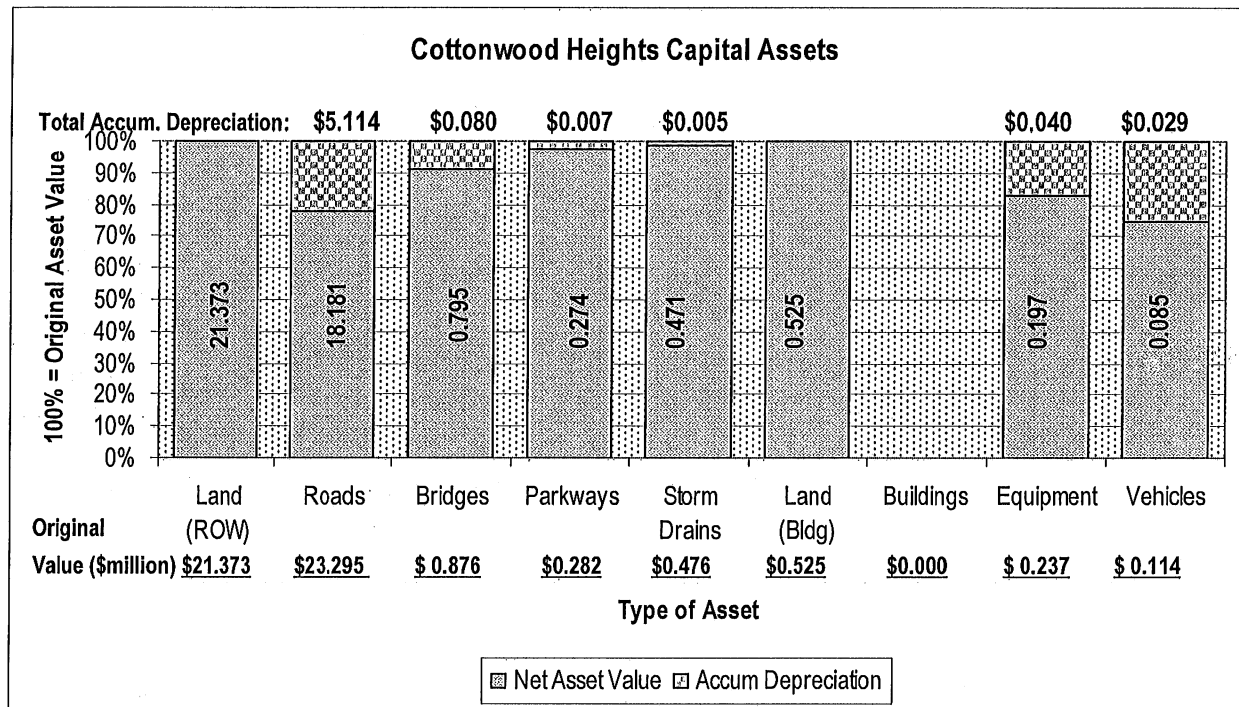
The City's Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund can be found on page 22 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

Cottonwood Heights' investment in capital assets for its governmental activities as of June 30, 2007 amounted to \$41,901,754 (net of accumulated depreciation). This investment in capital assets includes land right-of-way, roads, bridges, parkways (improvements other than buildings), storm drains, land (not road right-of-ways), buildings, equipment and vehicles.



Capital asset additions during this fiscal year included the following for a total increase of \$1,666,338 in assets:

- \$248,608 in infrastructure from road improvements
- \$281,726 in parkway beautification and improvements
- \$476,345 in storm drain improvements
- \$524,892 in land purchases for future buildings
- \$90,304 in new equipment asset purchases
- \$44,464 in additional vehicles

Additional information on assets of the City can be found in the Notes 3.D. Capital Assets on page 38 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

Long-term debt

At June 30, 2007 the City had \$36,972 in governmental long-term debt. None of this debt is considered to be general obligation debt. \$26,924 of this amount is a long-term liability in the Employee Benefit Fund (an internal service fund) for employee PTO accruals. The balance of the City's long-term debt is a capital lease on the City's first vehicle purchased, which was paid off July 15, 2007 and a capital lease on financial software purchased by the City which will be paid off March, 2008.

Additional information on the outstanding debt obligations of the City can be found in the Notes 3.F. Long-Term Debt on pages 39-40 of this report.

Intergovernmental Payable

The City also has an intergovernmental account payable of \$2,385,864 to Salt Lake County that is actually a deferment of contract payables from all of Fiscal 2005 and part of Fiscal 2006 for Sheriffs' contract payments that have been deferred until July 1, 2008. If all payments are completed on schedule and as planned there will be no interest charges imposed. The City intends to pay this obligation in full and on time. Funds to pay this obligation currently exist in the City's cash assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATE

- Cottonwood Heights adopted property tax rate for the 2007-08 budget year resulted in a rate of .002220. The locally assessed valuation in Cottonwood Heights is estimated at \$2,934,245,181. The adopted tax rate should yield approximately \$6,400,000 in property tax revenue. Sales taxes have continued strong and are expected to continue to grow. The budgeted amount of Sales taxes for fiscal year 2008 is \$5,457,916.
- The 2007-08 budget has been constructed with a focus on efficient and effective use of the limited resources available. No new taxes or planned debt has been proposed to fund City operations by the City Council, although General Fund revenues are projected to increase 6.74 percent. Currently there are no anticipated changes to the service areas or boundaries of the City which would impact either revenues or expenditures.
- The City has budgeted for the first time to self provide ordinance enforcement, which will include animal control, in the 2008 fiscal year. Additionally, the City has hire a geographical information system (GIS) specialist to meet the growing need to map City infrastructure to facilitate asset management. These additions to staffing contemplate cost savings over the previous method of contracting for such services.
- Should the City determine it appropriate to form a police department in lieu of contracting with the Salt Lake County Sheriff for law enforcement services, a budget adjustment may be required in the 2007-08 budget year for initial start-up costs. However, at the present time, no such decision has been made.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007**

- Capital improvements are budgeted at \$12,147,408 for the 2007-08 budget:
 - Projects are defined by the Capital Facilities Plan.
 - Nearly \$1,945,600 is funded by State and Local grants to facilitate improvements of the Old Mill Pond and the development of the Big Cottonwood Canyon Trail. Of that \$1,945,600, a total of \$375,000 has already been reimbursed and the balance is available for use for reimbursement of Cottonwood Heights expenditures as soon as they are made.
- The City has entered into a joint venture justice court with Holladay City in the 2008 fiscal year. Revenues are planned to be remitted from the court to the City each quarter.
- A significant update to the City's information systems is planned for the 2008 budget year. This upgrade is necessitated to insure continued functionality of the City's expanding need for information systems. The new system will facilitate greater data reliability and complete backup of City data. It will also provide a stable platform for the development of a GIS system, a document imaging system and provide a remote access solution for City field work. This implementation anticipates future incremental growth and associated need for Information Systems management.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cottonwood Heights' finances. Questions concerning any information provided in this report or a request for additional financial information should be addressed to: Cottonwood Heights, attn: David Muir, Finance Director, 1265 Fort Union Blvd, #250, Cottonwood Heights, UT 84047.

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BASIC FINANCIAL STATEMENTS

Cottonwood Heights, Utah
Statement of Net Assets
June 30, 2007

	Primary Government
	Governmental
	Activities
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ASSETS	
Cash and cash equivalents	\$10,224,014
Receivables (net of allowances)	\$1,106,561
Prepays	\$8,350
Restricted Cash and cash equivalents	\$253,555
Capital assets not being depreciated:	
Land	\$21,897,986
Capital assets (net of accumulated depreciation):	
Improvements other than buildings	\$196,728
Equipment	\$85,181
Infrastructure	\$19,721,858
	<hr/>
Total assets	\$53,494,234
<hr/>	
LIABILITIES	
Accounts payable and other current liabilities	\$1,199,323
Accrued liabilities	\$142,734
Deferred revenue	\$569,787
Non-current liabilities:	
Due within one year	\$10,048
Due in more than one year	\$26,341
Intergovernmental Payable:	
Due within one year	\$132,041
Due in more than one year	\$2,253,823
	<hr/>
Total liabilities	\$4,334,097
<hr/>	
NET ASSETS	
Invested in capital assets, net of related debt	\$41,891,706
Restricted for:	
Class C Roads	\$253,555
Unrestricted	\$7,014,876
	<hr/>
Total net assets	\$49,160,137
<hr/>	

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Statement of Activities

For the Year Ended June 30, 2007

Function / Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets	
	Primary Government			Governmental Activities Total		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
General government	3,421,036	553,676	250		(2,867,109)	
Public safety	6,339,016	158,498	128,404		(6,052,114)	
Highways and public improvements	3,197,851		1,233,612	33,579	(1,930,660)	
Community and economic development	616,335	221,802			(394,533)	
Interest on long-term debt	498				(498)	
Total governmental activities	13,574,736	933,977	1,362,266	33,579	(11,244,915)	
General revenues:						
Property Taxes					6,399,642	
Sales taxes					5,567,486	
Motor Vehicle Fee-In-Lieu					535,812	
Franchise taxes					214,766	
State Liquor Fund Allotment					29,926	
Grants and contributions not restricted to specific programs					6,248	
Unrestricted investment earnings					456,134	
Miscellaneous					7,503	
Total general revenue and transfers					13,217,517	
Changes in net assets					1,972,603	
Total net assets - beginning					47,187,534	
Total net assets - ending					49,160,137	

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Balance Sheet Governmental Funds June 30, 2007

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	4,418,650	5,779,023	\$10,197,673
Accounts receivables (net):	1,106,561		\$1,106,561
Prepaid Expenses	8,350		\$8,350
Restricted Cash and cash equivalents	253,555		\$253,555
Total assets	<u>5,787,115</u>	<u>5,779,023</u>	<u>\$11,566,138</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	3,585,187		\$3,585,187
Accrued liabilities	2,157		\$2,157
Advances from Developers	140,577		\$140,577
Deferred revenue	569,787		\$569,787
Total liabilities	<u>4,297,708</u>		<u>\$4,297,708</u>
Fund balances:			
Reserved:			
Class C roads	253,555		\$253,555
Unreserved, reported in:			
General Fund, required	936,166		\$936,166
Fund balance, available	299,686	5,779,023	\$6,078,709
Total fund balances	<u>1,489,407</u>	<u>5,779,023</u>	<u>\$7,268,431</u>
Total liabilities and fund balances	<u>5,787,115</u>	<u>5,779,023</u>	<u>\$11,566,138</u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2007

Total fund balances - governmental fund types: \$ 7,268,431

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 41,901,754

Long-term liabilities, including capital leases payable, are not due and payable in the current period and therefore are not reported in the funds. (10,048)

Net assets of governmental activities \$ 49,160,137

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes:			
Property	6,399,642		\$6,399,642
Sales	5,528,612		\$5,528,612
E-911 Emergency Fees	110,926		\$110,926
Motor Vehicle Fee-in-lieu	535,812		\$535,812
Franchise - Cable TV	214,766		\$214,766
Transient Room	38,874		\$38,874
Licenses and permits	553,676		\$553,676
Intergovernmental:			
Federal Grant	250		\$250
Homeland Security Grant	17,478		\$17,478
State Class C Roads	1,233,612		\$1,233,612
State Liquor Fund Allotment	29,926		\$29,926
Local Grants	6,248		\$6,248
Charges for services	221,802		\$221,802
Fines and forfeitures	158,498		\$158,498
Investment earnings	283,901	172,233	\$456,134
Miscellaneous	7,503		\$7,503
Total revenues	15,341,528	172,233	\$15,513,760
EXPENDITURES			
Current:			
General Government	1,494,342		\$1,494,342
Public Safety	6,345,404		\$6,345,404
Highways and Public Improvements	1,491,723	3,137,629	\$4,629,353
Community and economic development	625,825		\$625,825
Debt Service:			
Principal	10,571		\$10,571
Interest	498		\$498
Total expenditures	9,968,363	3,137,629	\$13,105,992
Excess (deficiency) of revenues over (under) expenditures	5,373,165	(2,965,397)	\$2,407,768
OTHER FINANCING SOURCES (USES)			
Sources:			
Impact Fees - Current Year Collections	33,579		\$33,579
Transfers from General Fund		4,689,357	\$4,689,357
(Uses):			
Transfers to Capital Improvement Fund	(4,689,357)		(\$4,689,357)
Total Other Financing Sources (Uses)	(4,655,778)	4,689,357	\$33,579
Net change in Fund Balances	717,386	1,723,960	\$2,441,347
Fund Balance - Beginning	772,021	4,055,063	\$4,827,084
Fund Balance - Ending	1,489,407	5,779,023	\$7,268,431

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 2,441,347
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(479,315)
---	-----------

Repayments of capital lease principal are expenditures in the governmental fund, Principal payments on capital leases	<u>10,571</u>
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Change in net assets of governmental activities	<u><u>\$ 1,972,603</u></u>
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The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

Description	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
Taxes:				
Property	6,703,245	6,314,340	6,399,642	85,302
Sales	4,500,000	5,390,000	5,528,612	138,612
E-911 Emergency Fees		81,000	110,926	29,926
Motor Vehicle Fee-in-lieu	362,000	500,000	535,812	35,812
Franchise - Cable TV	180,000	180,000	214,766	34,766
Transient Room	3,000	25,000	38,874	13,874
Licenses and permits	641,130	680,130	553,676	(126,454)
Intergovernmental:				
Federal Grant	90,000	65,000	250	(64,750)
Homeland Security Grant		17,500	17,478	(22)
State Class C Roads	1,200,000	1,200,000	1,233,612	33,612
State Liquor Fund Allotment	25,000	29,926	29,926	0
Local Grants	1,500	6,248	6,248	0
Charges for services	61,000	92,000	221,802	129,802
Fines and forfeitures	100,000	138,246	158,498	20,252
Investment earnings	141,240	250,000	283,901	33,901
Miscellaneous			7,503	7,503
Total revenues	14,008,115	14,969,390	15,341,528	372,137
EXPENDITURES				
Current:				
General Government	1,549,534	1,636,467	1,494,342	(142,125)
Public Safety	6,349,720	6,511,616	6,345,404	(166,212)
Highways and Public Improvements	1,887,903	1,736,545	1,491,723	(244,821)
Community and economic development	484,624	642,081	625,825	(16,257)
Debt Service:				
Principal	10,572	10,572	10,571	(1)
Interest	498	498	498	0
Total expenditures	10,282,851	10,537,779	9,968,363	(569,416)
Excess (deficiency) of revenues over (under) expenditures	3,725,264	4,431,611	5,373,165	941,553
OTHER FINANCING SOURCES (USES)				
Sources:				
Impact Fees - Current Year Collections	90,000	90,000	33,579	(56,421)
(Uses):				
Transfers to Capital Improvement Fund	(3,935,868)	(4,689,357)	(4,689,357)	0
Transfers to SL County Easy - Golden Hills	(50,000)			
Total Other Financing Sources (Uses)	(3,895,868)	(4,599,357)	(4,655,778)	(56,421)
Net change in Fund Balances	(170,604)	(167,746)	717,386	885,132
Fund Balance - Beginning	367,705	756,492	772,021	15,529
Fund Balance - Ending	197,101	588,746	1,489,407	900,661

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Net Assets
Proprietary Fund
For the Year Ended June 30, 2007

	Governmental Activities - Employee Benefit Fund
ASSETS	
Cash and cash equivalents	\$ 26,341
Total assets	<u>26,341</u>
LIABILITIES	
Non-current liabilities	
Accrued PTO benefits payable	26,341
Total liabilities	<u>26,341</u>
NET ASSETS	
Unrestricted	0
Total net assets	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2007

	Governmental Activities - Employee Benefit Fund
OPERATING REVENUES	
Charges for interfund services provided	\$ 10,461
Total operating revenues	<u>10,461</u>
OPERATING EXPENSES	
General Government - employee PTO benefits	<u>11,276</u>
Total operating expenses	<u>11,276</u>
Operating income	(815)
NON-OPERATING REVENUES	
Investment Earnings	<u>815</u>
Total non-operating revenues	<u>815</u>
Change in net assets	<u>0</u>
Total net assets - beginning	<u>0</u>
Total net assets - ending	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2007

	Governmental Activities - Employee Benefit Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	<u>\$ 10,461</u>
Net cash provided by operating activities	<u>10,461</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	<u>815</u>
Net cash provided by investing activities	<u>815</u>
Net increase in cash and cash equivalents	11,276
Cash and cash equivalents July 1, 2006	<u>15,065</u>
Cash and cash equivalents June 30, 2007	<u><u>\$ 26,341</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating Income	(815)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase in accrued PTO benefits payable	11,276
Net cash provided by operating activities	<u><u>\$ 10,461</u></u>

The notes to the financial statements are an integral part of this statement.

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COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Cottonwood Heights (the City), incorporated in 2005, is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of four council members. The financial statements of the City may include those of separately administered organizations that are controlled by or are dependent upon the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Cottonwood Heights, Utah, conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	Cottonwood Heights
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

Government-wide Statement of Net Assets and Statement of Activities display information on all non-fiduciary activities of the reporting government as a whole. Most effects of any inter-fund activities have been eliminated from these statements.

The government-wide statements for the primary government are separated based on the predominance of the type of revenues that support them. Governmental activities are normally supported by taxes and intergovernmental revenues, while business type activities would receive a significant portion of revenues from fees and charges for services.

The statement of activities is presented to show the extent that program revenues of a given activity support direct expenditures of the function. Direct expenses are those that can clearly be

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

associated with a particular activity or program. Program revenues include: (1) charges to customers or privileges provided by a given function and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Other revenue sources that are not reported as program revenues are reported instead as general revenues.

Fund Financial Statements:

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All funds of Cottonwood Heights are considered to be major funds.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets.

Proprietary Funds:

Employee Benefit Fund (an internal service fund)

This fund is used to account for liabilities created from accrued Personal Time Off (PTO) of each City employee. Each year a calculation is made to determine the payouts that could occur in future years. This amount is charged to the current year in order to eliminate any large unforeseen payout that could disrupt the individual departmental budgets.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide Statement of Net Assets and the Statement of Activities are presented using the economic resources measurement focus as defined in item b. below.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets. The City employee benefit fund (an internal service fund) is reported on this basis.
- c. Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The City has no Fiduciary funds at this time.

Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City includes in available revenue only revenue that will be collected in cash within one year following the close of the fiscal year, and in the case of property tax revenue, only revenue that will be collected within 60 days of the close of the fiscal year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

1.D. ASSETS, LIABILITIES, AND NET ASSETS (EQUITY)

Deposits and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (non-current portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end. The City has no interfund receivables.

Receivables and Payables

In the government-wide statements and the fund financial statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales taxes, franchise tax, property taxes, court fines and road cut permits. Interest and investment earnings are recorded when earned and considered both measurable and available.

Payables are composed of contract payments for public works, permitting and inspections, engineering and the city attorney. The major account payable balance is attributable to the large outstanding payable due to Salt Lake County for Sheriff's services in the first 8 months of the City's existence. It is anticipated this will be paid in full July 1, 2008.

Capital Assets

The accounting treatment for property, plant, and equipment depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements assets are accounted for as capital assets. All assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the infrastructure assets transferred

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

from Salt Lake County during the period ending June 30, 2005. The City has chosen to capitalize assets costing \$10,000 or more.

Depreciation of all exhaustible assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	45 years
Machinery and Equipment	5 to 15 years
Vehicles	5 years
Infrastructure – original costs - annual upgrade costs	15-50 years (minimum 5 year life extension)

Fund Financial Statements

In the fund financial statements assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of the State Law. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork. The City may also have certain impact fees that are restricted from time to time.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as a liability in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused paid time off (PTO) benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. There is no recorded liability for compensated absences in the

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

governmental funds because the Employee Benefit Fund (an internal service fund) has been paid for the incurred compensated absence expenditures.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets net of accumulated depreciation. The City currently has no related debt.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated (required) and undesignated (available). See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenue

Property taxes, franchise taxes, licenses, shared revenue, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Expenditures/Expenses

In the government-wide financial statements, expenditures are classified by function for governmental activities.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:
 Current (further classified by function)
 Debt Service
 Capital Outlay

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual obligations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of funds separate from the General Fund. The legally required separate funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
None	

2.B. CASH DEPOSITS AND INVESTMENTS

Deposits and investments for Cottonwood Heights are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of Cottonwood Heights' exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, Cottonwood Heights' deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of Cottonwood Heights to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2007, Cottonwood Heights had no deposits that were uninsured, except for a small amount that is swept from the City's Zions Bank checking account to a Zions Bank Grand Cayman Branch on a daily basis in order to earn interest on otherwise idle cash. The balance in this uninsured account as of June 30, 2007 was \$253,426.79.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act.

Cottonwood Heights is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended June 30, 2007, Cottonwood Heights had investments of \$10,370,949 with the PTIF. The entire balance had a maturity of less than one year (64 days). The PTIF pool has not been rated. A copy of the Public Treasurers Investment Fund is available for viewing on the Utah State Treasurer's website at <http://www.treasurer.state.ut.us>.

Investment Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Cottonwood Heights manages its exposure to declines in fair value by investment only in the PTIF and by adhering to the Money Management Act.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
B & C Road Funds	Eligible B & C Roads

For the period ended June 30, 2007, the City complied, in all material respects, with these revenue restrictions

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

No long-term general obligation debt shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt in an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2007, the City had no outstanding general obligation debt.

Other Long-term Debt

Cities may incur indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2007, the City had no such indebtedness.

2.E. FUND EQUITY RESTRICTIONS

General Fund Balance Restrictions

Utah Code 10-6-116(4) requires that only the "fund balance in excess of 5 percent of total revenues of the general fund may be utilized for budget purposes." The remaining 5 percent must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18 percent of the total estimated revenue of the general fund (10-6-116(2)). The City Council has set its' own standard of maintaining a minimum 6 percent fund balance. Currently the City's fund balance equals 7.9 percent of total revenues.

2.F. BUDGETARY BASIS OF ACCOUNTING

In the governmental fund statements the accounting basis and the budgetary basis are the same. The Statement (Schedule) of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual presented for the general fund and the capital projects fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Budgets are legally required for governmental funds. Annual budgets are prepared and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1, in accordance with Utah State law. The operating budget includes proposed expenditures and proposed sources of financing for such expenditures. Prior to June 22 a public hearing is conducted to obtain taxpayer input. Budgets are adopted by ordinance in total for each department. Management can move budgeted amounts within a department or decrease appropriations. The City Council can increase appropriations after having a public hearing. During the year ended June 30, 2007 the City Council amended the original budget just once.

Budgets for the Capital Projects Fund are also prepared using the modified accrual basis of accounting and are adopted on an annual basis. Project budgets for the Capital Projects fund are

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

prepared annually and are re-appropriated by Council action in the following year. State law also requires a budget comparison for all funds for which an annual budget is adopted.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3.A. CASH DEPOSITS AND INVESTMENTS

Below is a reconciliation of the year end balance invested in the PTIF's and other cash and investments presented in the statement of net assets.

Utah State Public Treasurers' Investment Fund balance	\$ 10,370,949
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Reconciliation to Government-wide Statement of Net Assets:

Investments	\$ 10,370,949
Cash on Hand	1,030
Deposits	105,589
Total	\$ 10,477,569

Per Statement of Net Assets:

Unrestricted Cash	\$ 10,224,014
Restricted Cash	253,555
Total	\$ 10,477,569

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2007, are as follows:

Type of Restricted Asset	Cash/Time Deposits
<i>Governmental Activities:</i>	
Class C Road Funds	\$ 253,555
Total	\$ 253,555

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

3.C. ACCOUNTS RECEIVABLE

Accounts receivables of the governmental activities consist principally of fiscal year accruals of sales taxes, property taxes, court fines and road cuts permits receivable.

Receivables detail at June 30, 2007, is as follows:

	<u>Governmental Activities</u>
Accounts Receivable	\$ 1,106,561
Allowance for Doubtful Accounts	-
Net Accounts Receivable	<u><u>\$ 1,106,561</u></u>

3.D. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2007, was as follows:

	Balance at July 1, 2006	Additions	Disposals / Misc Adj	Balance at June 30, 2007
Governmental Activities:				
Equipment	\$ 146,392	\$ 90,304	\$ -	\$ 236,695
Vehicles	69,308	44,464	-	113,772
Buildings	-	-	-	-
Land (non-infrastructure)	-	524,892	-	524,892
Infrastructure - Roads	23,046,612	248,608	-	23,295,220
Infrastructure - Bridges	875,564	-	-	875,564
Infrastructure - Parkways	-	281,726	-	281,726
Infrastructure - Storm Drains	-	476,345	-	476,345
Land related Infrastructure	21,373,094	-	-	21,373,094
Totals at historical cost	<u>45,510,970</u>	<u>1,666,338</u>	<u>-</u>	<u>47,177,308</u>
Less Accum. Depreciation				
Equipment	(20,019)	(19,548)	-	(39,567)
Vehicles	(10,643)	(18,348)	-	(28,991)
Buildings	-	-	-	-
Infrastructure - Roads	(3,051,442)	(2,062,734)	-	(5,114,176)
Infrastructure - Bridges	(47,797)	(32,313)	-	(80,110)
Infrastructure - Parkways	-	(7,417)	-	(7,417)
Infrastructure - Storm Drains	-	(5,293)	-	(5,293)
Total Accum. Depreciation	<u>(3,129,900)</u>	<u>(2,145,653)</u>	<u>-</u>	<u>(5,275,554)</u>
Governmental Activities capital assets, net	<u><u>\$ 42,381,069</u></u>	<u><u>\$ (479,315)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 41,901,754</u></u>

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Depreciation and Miscellaneous Adjustment expense was charged to governmental activities as follows:

General government:

General government	\$ 13,560
Public Safety	9,198
Highways & Public Improvements	2,118,986
Community Planning	3,910
Total depreciation expense	<u>\$ 2,145,653</u>

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed of contract payments for public works, permitting and inspections, engineering and the city attorney. The major account payable balance is attributable to the large outstanding payable due to Salt Lake County for Sheriff services in the first 8 months of the Cities existence. It is anticipated this will be paid in full July 1, 2008.

3.F. LONG-TERM DEBT

The reporting entity's long-term debt consists of capital leases and accrued employee benefits to be repaid from governmental activities.

As of June 30, 2007, the City had long-term debt payable from general fund resources consisting of the following:

Capital Leases Payable:

Zions Bank - Code Enforcement Truck 4.09%, (original amount \$18,461)	\$ 6,213
Microsoft - Software Lease 0%, (Original amount \$13,806)	3,835
Total general fund debt	<u>10,048</u>

And also as of June 30, 2007 the City had proprietary fund long-term debt payable as follows

Employee Benefit Fund (an Internal Service Fund):

Paid Time Off - Future PTO Liability	26,924
Total proprietary fund debt	<u>26,924</u>
Total governmental activity debt	<u>\$ 36,972</u>

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the period ended June 30, 2007:

Type of Debt	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Capital leases	\$ 20,619	\$ -	\$ (10,571)	\$ 10,048
Employee Benefit Fund - PTO	\$ 15,065	11,859		26,924
Total Governmental Fund Debt	<u>\$ 35,684</u>	<u>\$ 11,859</u>	<u>\$ (10,571)</u>	<u>\$ 36,972</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity for governmental long-term debt principal and interest as of June 30, 2007, are as follows:

Year Ending June 30	Governmental Activities Capital Leases
2008	\$ 10,302
Thereafter	-
Total commitment	<u>10,302</u>
Less interest portion	<u>(254)</u>
Net capital leases	<u>\$ 10,048</u>

3.G. INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$ 4,689,357	
Capital Projects Fund		\$ 4,689,357

3.H. FUND EQUITY

Restricted Fund Equity

	<u>Government Activities</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 41,891,706
Restricted for:	
Class "C" Roads	253,555
Unrestricted	<u>7,014,876</u>
Total Net Assets	<u>\$ 49,160,137</u>

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 4. OTHER INFORMATION

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Pension Plans

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated* 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772. The System does allow elected officials and a small percent of appointed officials to be exempt from participation in the Noncontributory System in lieu of other retirement options.

The City is required to contribute to the Noncontributory System 11.59 percent of salaries for fiscal year 2007 and currently 11.62 percent. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Noncontributory System for the periods ending June 30, 2007 and 2006, 2005 were respectively \$57,861 and \$38,832, \$14,536. The contributions were equal to the required contributions for this period.

The City has also elected to be exempt from the Federal Social Security System for all employees that participate in a qualifying retirement plan. In lieu of contributions to the Social Security System the City contributes into various deferred compensation plans explained below.

Deferred Compensation Plans

The assets held by these deferred plans are not available to the City or its general creditors.

401(k) Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 401(k) for City employees covered by the state retirement plan. The Utah State Retirement Board administers this Plan. Employees who have elected to be exempt from the Noncontributory System may elect to have their equivalent City contribution contributed into this plan.

COTTONWOOD HEIGHTS
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

The amount of the employer contributions that substitute for contributions to the Non-contributory pension for the periods ended June 30, 2007 and 2006, 2005 were \$15,816 and \$14,043, \$4,066 respectively. Employer contributions that substitute for medical coverage for the periods ended June 30, 2007 and 2006, 2005 were \$5,916 and \$2,736, \$1,140. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage. The employees of the City may also participate in the 401(k) deferred compensation plan through payroll deductions.

457 Plans

The City sponsors 457 Deferred Compensation Plans in accordance with Internal Revenue Code Section 457 for City employees covered by the state retirement plan. These plans are administered both by the Utah State Retirement Board and the International City/County Management Association Retirement Corporation (ICMA-RC). Employees who have elected to be exempt from the Noncontributory System may elect to have their equivalent City contribution contributed into this plan. The employees of City may also participate in the 457 deferred compensation plan through payroll deductions.

Utah State Retirement Systems 457 Plan

The amount of the employer contributions that substitute for contributions to the Noncontributory system for the periods ended June 30, 2007 and 2006, 2005 were respectively \$7,879 and \$7,319, \$0. Employer contributions that substitute for social security contributions for the periods ended June 30, 2007 and 2006, 2005 were \$15,838 and \$10,938, \$3,191.

International City/County Management Association 457 Plan

Employer contributions that substitute for medical coverage for the periods ended June 30, 2007 and 2006, 2005 were respectively \$13,636 and \$9,264, \$3,860. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage. Additional employer contributions to this plan for the periods ended June 30, 2007 and 2006, 2005 in the amount of \$27,384 and \$23,960, \$9,085 respectively, constitute the equivalent of otherwise required social security contributions.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

SUPPLEMENTARY INFORMATION

Cottonwood Heights, Utah
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended June 30, 2007

Description	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
Investment earnings	188,320	188,320	172,233	(16,087)
Total revenues	188,320	188,320	172,233	(16,087)
EXPENDITURES				
Current:				
Highways and Public Improvements	8,088,939	3,236,580	3,137,629	(98,950)
Debt Service:				
Total expenditures	8,088,939	3,236,580	3,137,629	(98,950)
Excess (deficiency) of revenues over (under) expenditures	(7,900,619)	(3,048,260)	(2,965,397)	82,863
OTHER FINANCING SOURCES (USES)				
Sources/(Uses):				
Transfers from General Fund	3,935,868	4,689,357	4,689,357	0
Total Other Financing Sources (Uses)	3,935,868	4,689,357	4,689,357	0
Net change in Fund Balances	(3,964,751)	1,641,097	1,723,960	82,863
Fund Balance - Beginning	3,964,751	4,055,063	4,055,063	
Fund Balance - Ending			5,779,023	5,779,023

Cottonwood Heights, Utah

Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures

Storm Water Impact Fees

For Year Ended June 30, 2007

Fee Type	Date Receipted	Receipt#	Permit #	Permittee	Location of Permit	Impact Fee Collected	City Capital Project	Planned Date of Capital Project	Unspent Fees as of 6/30/07
Storm Water	2/1/2006	1489	06-0008	Halverson Construction	3554 Sutton Circle	\$ 276	IFS, 2300 E Imprv.	FY 2006, FY 2007	\$ -
Storm Water	3/1/2006	1583	05-0398	Ryan Anderson	2611 E Chalet Cir	914	2300 East Improvements	FY 2007	-
Storm Water	3/29/2006	1724	06-0073	Larry Stewart	6977 S Canyon Creek Circle	658	2300 East Improvements	FY 2007	-
Storm Water	4/5/2006	1763	06-0076	Copper Hills Custom Homes	8275 S Supernal Way	552	2300 East Improvements	FY 2007	-
Storm Water	4/21/2006	1833	06-0113	Chelsea Construction	7656 S Hilden Ct	2,759	2300 East Improvements	FY 2007	-
Storm Water	5/2/2006	1885	06-0053	BLB Drywall	2970 E Caitland Court	759	2300 East Improvements	FY 2007	-
Storm Water	5/4/2006	1898	06-0171	Kevin Bowers	7075 & 7085 S 2245 E	793	2300 East Improvements	FY 2007	-
Storm Water	5/10/2006	1919	06-0146	Maverick Builders	2930 E 7108 S	836	2300 East Improvements	FY 2007	-
Storm Water	6/8/2006	2028	06-0191	Treasure Valley Real Est	7136 Waymar Cir	583	2300 East Improvements	FY 2007	-
Storm Water	6/26/2006	2095	06-0166	Halverson Construction	8784 S Sutton Drive	866	2300 East Improvements	FY 2007	-
Balance of Funds FY 2006 Total						8,996		FY 2006 Total	-
Storm Water	9/14/2006	2410	06-0041	Richard Taylor	3744 E. Prospector Circle	903	2300 East Improvements	FY 2007	-
Storm Water	9/11/2006	2399	06-0196	Halverson Construction	8765 Sutton Way	1,765	2300 East Improvements	FY 2007	-
Storm Water	9/14/2006	2412	06-0207	Jerry Anderson Construction	6975 So. Highland Drive	1,790	2300 East Improvements	FY 2007	-
Storm Water	7/12/2006	2159	06-0215	Pinecrest Homes	2157 E. Lorita Way	316	2300 East Improvements	FY 2007	-
Storm Water	7/19/2006	2197	06-0216	Pinecrest Homes	2163 E Lorita Way	315	2300 East Improvements	FY 2007	-
Storm Water	12/5/2006	2827	06-0219	Jar-Con Inc.	7265 So. Milne Garden Circle	1,049	2300 East Improvements	FY 2007	-
Storm Water	7/31/2006	2234	06-0282	Underwood Construction	7256 S. Milne Lane	919	2300 East Improvements	FY 2007	-
Storm Water	7/27/2006	2220	06-0293	Underwood Construction	7288 S. Milne Garden Circle	959	2300 East Improvements	FY 2007	-
Storm Water	9/14/2006	2415	06-0319	R & O Construction	6972-6960 So. Park Center Bldg.	14,334	2300 East Improvements	FY 2007	-
Storm Water	8/24/2006	2346	06-0322	Bryan Maughan Construction	7888 S. Ashley Downs Ct.	4,458	2300 East Improvements	FY 2007	-
Storm Water	11/14/2006	2631	06-0383	Ryan Anderson Construction	1519 East 7200 South	744	2300 East Improvements	FY 2007	-
Storm Water	6/26/2007	4359	07-0190	Timberwolf Homes	1601 East 7200 South	1,490	2300 East Improvements	FY 2007	-
Storm Water	5/8/2007	4128	07-0114	Streamline Construction	7044 So. Iron Blossom Lane	273	2300 East Improvements	FY 2007	-
Storm Water	5/16/2007	4172	07-0115	Streamline Construction	7041 So. Iron Blossom Lane	284	2300 East Improvements	FY 2007	-
Storm Water	5/16/2007	4174	07-0116	Streamline Construction	7043 So. Iron Blossom Lane	276	2300 East Improvements	FY 2007	-
Storm Water	5/16/2007	4173	07-0123	Streamline Construction	3214 East 7000 South	432	2300 East Improvements	FY 2007	-
Storm Water	5/21/2007	4203	07-0174	Portico Real Estate Dev.	7725 S. Bengal Heights Ct.	1,053	2300 East Improvements	FY 2007	-
Storm Water	5/21/2007	4197	06-0381	B Bone, LLC	7179 South City View	1,490	2300 East Improvements	FY 2007	-
FY 2007 Total						32,850		FY 2007 Total	-
Available Storm Water Fees FY2007						\$ 41,846		Balance of Unexpended Funds	\$0.00

*NOTE: The amount expended in fiscal year 2007 on the 2300 East Improvements exceeded \$300,000.

Cottonwood Heights, Utah
Schedule of Impact Fees Collected by Year, Project, and Planned Expenditures
Transportation Impact Fees
For Year Ended June 30, 2007

<u>Fee Type</u>	<u>Date Received</u>	<u>Receipt#</u>	<u>Permit #</u>	<u>Permitee</u>	<u>Location of Permit</u>	<u>Impact Fee Collected</u>	<u>City Capital Project</u>	<u>Planned Date of Capital Project</u>	<u>Unspent Fees as of 6/30/07</u>
Transportation	6/26/2004	4359	07-0190	Timberwolf Homes	1601 East 7200 South	\$ 243	Impact Fee Study	FY 2007	\$ -
Transportation	5/21/2007	4203	07-0174	Portico Real Estate Dev.	7725 S. Bengal Heights Ct.	243	Impact Fee Study	FY 2007	-
Transportation	5/21/2007	4197	06-0381	B Bone, LLC	7179 South City View	243	Impact Fee Study	FY 2007	-
Available Transportation Fees FY2007						<u>\$ 729</u>	Balance of Unexpended Funds		<u>\$ -</u>

*NOTE: The amount expended in fiscal year 2007 on the Impact Fee Study exceeded \$25,000.